

**HORIZONS COMMUNITY
HIGH SCHOOL
Kent County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2007

HORIZONS COMMUNITY HIGH SCHOOL
Table of Contents

For the year ended June 30, 2007

Financial Section

<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	3
<i>Basic Financial Statements</i>	10

School-wide Financial Statements:

Statement of Net Assets.....	11
Statement of Activities	12

Fund Financial Statements:

Governmental Fund:

Balance Sheet	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund	17
Notes to Basic Financial Statements	18

Supplemental Information

Individual Fund Statements and Schedules:

General Fund	28
Comparative Balance Sheet	29
Comparative Schedule of Revenues	30
Comparative Schedule of Expenditures	31

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	34
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

November 15, 2007

The Board of Directors
Horizons Community High School

We have audited the accompanying financial statements of the governmental activities and the major fund of Horizons Community High School (the "School") as of and for the year ended June 30, 2007, which collectively comprise the Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's elected officials and management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Horizons Community High School at June 30, 2007, and the respective changes in financial position and budgetary comparison for the General Fund thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007 on our consideration of Horizons Community High School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Horizons Community High School. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Horizons Community High School

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

This section of the Horizons Community High School ("District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2007. Please read it in conjunction with the District's financial statements which immediately follow this section.

District-Wide Financial Statements

The first two statements are district-wide financial statements that provide short-term and long-term financial information about the District's overall financial status. These statements are required by generally accepted accounting principles (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The statements are compiled using the full accrual basis of accounting and more closely represent financial statements presented by business and industry. All of the District's assets and liabilities, both short- and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt and other long-term obligations of the District resulting in total net assets.

Over time, increases or decreases in the District's net assets is one indicator of whether its financial position is improving or deteriorating. To assess the District's overall financial health, one should consider additional factors which may include the State and regions economic condition and the age and condition of its capital assets.

Fund Financial Statements

For the most part, the fund financial statements are comparable to financial statements for fiscal years prior to the required implementation of GASB Statement No. 34. The primary difference is that the Account Groups (General Fixed Asset and General Long-term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are deemed "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The formats of the fund statements comply with requirements of the Michigan Department of Education's "Accounting Manual". In the state of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds categorized as Special Revenue, Debt Service, and Capital Projects Funds.

Horizons Community High School

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

In addition to the governmental fund types mentioned above, the District is the trustee, or fiduciary, for assets that belong to others, typically student groups. The District is responsible for ensuring that the assets reported in these accounts are used only for their intended purposes by the groups to whom the assets belong. These monies are accounted for in the Student Activity Fund and the related financial activity is appropriately excluded from the district-wide financial statements as the assets do not belong to the District.

In the fund financial statements, capital assets purchased are considered expenditures in the year of acquisition with no asset being reported. The issuance of debt is treated as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Summary of Net Assets

The following schedule summarizes the net assets for the fiscal years ended June 30, 2007 and 2006:

Assets	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current assets	\$ 758,874	\$ 446,389
Non-current assets	-	-
Total Assets	<u>758,874</u>	<u>446,389</u>
Liabilities		
Current liabilities	307,278	230,946
Long-term liabilities	<u>94,974</u>	<u>36,790</u>
Total Liabilities	<u>402,252</u>	<u>267,376</u>
Net Assets		
Total Net Assets	\$ <u>356,622</u>	\$ <u>178,653</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2007, the District's net assets decreased by \$84,643. A few of the more significant factors affecting net assets during the year are discussed below:

Horizons Community High School

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

- Cash Equivalents, Deposits and Investments

At June 30, 2007, the District's cash equivalents, deposits and investments amounted to \$387,097. This amount represents an increase of \$251,275 primarily as a result of revenues exceeding expenses.

- Accumulated Sick Leave

At June 30, 2007, the District had an obligation to employees for the portion of earned vacation and sick leave time that they would be entitled to upon separation in the amount of \$98,474.

Results of Operations

For the fiscal years ended June 30, 2007 and 2006, the results of operations, on a District-wide basis, were:

	Fiscal year ended June 30, 2007		Fiscal year ended June 30, 2006	
	Amount	%	Amount	%
General Revenues				
State sources, unrestricted	\$ 1,624,867	84.24%	1,530,366	86.29%
Investment earnings	10,737	0.56%	4,585	0.26%
Other	-		-	
Total general revenues	1,635,604	84.79%	1,534,951	86.55%
Program Revenues				
Charges for services	-			
Operating grants	293,323	15.20%	238,593	13.45%
Total revenues	1,928,927	100.0%	1,773,544	100.0%
Expenses				
Instruction	1,125,705	64.29%	1,094,800	64.78%
Support services	625,253	35.71%	595,134	35.22%
Total expenses	1,750,958	100.0%	1,689,934	100.0%
Increase in net assets	\$ <u>177,969</u>		\$ <u>83,610</u>	

Horizons Community High School

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

- State Sources

The majority of the unrestricted state sources of revenues is comprised of the per student foundation allowance. The State of Michigan funds school districts based on a blended student enrollment which is calculated using 75% of the current year's fall count (September) and 25% of the prior year's spring count (February). For the 2006-2007 fiscal year, the District received \$7,113 per student full time equivalent. The student foundation allowance amount increased by \$210 over the 2005-2006 fiscal year.

- Operating Grants

The District receives a significant portion of its operating revenue from categorical grants. For the fiscal year ended June 30, 2007, federal, state, and other grants amounted to \$293,323. This represents a 22.94%% increase over the \$238,593 received for the 2005-2006 fiscal year.

Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

Expenditures	Fiscal Year		Increase (Decrease)
	2006-2007	2005-2006	
Instruction	\$ 1,085,618	\$ 1,094,800	\$ (9,182)
Supporting services	611,157	595,134	16,023
Total expenditures	\$ 1,696,775	\$ 1,689,934	\$ 6,841

Horizons Community High School

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

General Fund Budgetary Highlights

The Uniform Budgeting Act of the State of Michigan requires that the local Board of Education approve the annual operating budget prior to the start of the fiscal year on July 1. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2006-2007 fiscal year, the District amended the general fund budget once. The Board adopted the budget revisions at a meeting in February 2007.

The following schedule shows a comparison of the original general fund budget, the final amended budget, and actual totals from operations for the fiscal year ending June 30, 2007:

	Original Budget	Final Budget	Actual	Variance with Final Budget	% Variance
Total Revenues	\$ 1,787,924	\$ 1,925,632	\$ 1,928,928	\$ 3,296	0.17%
Expenditures					
Instruction	\$ 1,116,982	\$ 1,172,547	\$ 937,176	\$ 235,371	20%
Supporting services	619,959	666,669	759,599	92,930	14%
Total Expenditures	\$ 1,736,941	\$ 1,839,216	\$ 1,696,775	\$ 142,441	7.74%

The original budget adopted by the Board in June 2006 was amended once during the year. The amendment was approved in February 2007 and reflected necessary changes to both revenues and expenditures based on projections made by the Director of Finance.

Capital Asset and Debt Administration

Capital Assets

By the end of the 2006-2007 fiscal year, the District had a zero balance in capital assets. Previously reported capital assets are not included on the Statement of Net Assets as they consist of computer and other small equipment that fall under the \$5,000 capitalization threshold established by the School beginning July 1, 2003. Buildings and infrastructure are rented from Wyoming Public Schools. More detailed information about capital assets can be found in the Notes to Basic Financial Statements.

Horizons Community High School

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Long-term Debt

The District long-term debt outstanding consists of employee accumulated sick leave (\$98,474), which will be paid as qualifying employees retire.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

- The uncertainty of student foundation funding levels, as well as funding for other K-12 education programs, reflects the economic difficulties faced by the State of Michigan. Michigan continues to trail the national averages in most economic indicators. The impact of the State's economic problems is demonstrated by the number of families below the poverty level. Analysts have described the situation as a "single state recession" and are predicting a slow recovery to the situation. Furthermore, the economic difficulties are resulting in jobs leaving the State which ultimately leads to families moving and a loss of students for the District.
- The charter the District has with its chartering agent, Wyoming Public Schools, is due to expire at the end for the 2007-2008 Fiscal Year. The renewal of the charter may impact the District.
- With relatively flat or declining enrollment, lack of stability in the funding stream from the State, and rising costs in many areas including employee health insurance, retirement contribution costs, and utilities, District administration continues to be diligent in maintaining a reasonable level of reserves (fund balance). Measures to accomplish this include, but are not limited to, modifications to health insurance offerings to both unionized and non-unionized employees, and application for and use of grant funding for programs to improve the education of students.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional information, please contact the Director's office, Horizons Community High School, 1585-36th St. S.W., Wyoming, Michigan 49509, telephone (616) 530-7535.

BASIC FINANCIAL STATEMENTS

HORIZONS COMMUNITY HIGH SCHOOL
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash equivalents, deposits and investments (Note B)	\$ 387,097
Due from other governmental units (Note C)	345,434
Inventory (Note A)	500
Prepaid expenses	<u>25,843</u>
Total Assets	<u>758,874</u>
Liabilities	
Current Liabilities	
Accounts payable	3,016
Due to other governmental units	165,251
Accrued salaries and related items	135,511
Current portion of long term obligations	<u>3,500</u>
Total Current Liabilities	<u>307,278</u>
Noncurrent Liabilities (Notes A, D)	
Accumulated sick leave	98,474
Current portion of long term obligations	<u>(3,500)</u>
Total Noncurrent Liabilities	<u>94,974</u>
Total Liabilities	<u>402,252</u>
Net Assets	
Unrestricted	<u>356,622</u>
Total Net Assets	<u><u>\$ 356,622</u></u>

See accompanying notes to basic financial statements.

HORIZONS COMMUNITY HIGH SCHOOL
Statement of Activities
For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 1,125,705	\$ -	\$ 293,323	\$ (832,382)
Supporting services	<u>625,253</u>	<u>-</u>	<u>-</u>	<u>(625,253)</u>
Total Governmental Activities	<u>\$ 1,750,958</u>	<u>\$ -</u>	<u>\$ 293,323</u>	<u>(1,457,635)</u>
General Revenues				
State school aid, unrestricted				1,624,867
Interest and investment earnings				<u>10,737</u>
Total General Revenues				<u>1,635,604</u>
Change in Net Assets				177,969
Net Assets - Beginning of Year				<u>178,653</u>
Net Assets - End of Year				<u>\$ 356,622</u>

See accompanying notes to basic financial statements.

HORIZONS COMMUNITY HIGH SCHOOL
Balance Sheet
Governmental Funds
June 30, 2007

	<u>General Fund</u>
Assets	
Cash equivalents, deposits and investments (Note B)	\$ 387,097
Due from other governmental units (Note C)	345,434
Inventory (Note A)	500
Prepaid expenses	<u>25,843</u>
Total Assets	<u><u>\$ 758,874</u></u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 3,016
Due to other governmental units	165,251
Accrued salaries and related items	<u>135,511</u>
Total Liabilities	<u>303,778</u>
Fund Balances	
Unreserved:	
Undesignated, reported in:	
General fund	<u>455,096</u>
Total Liabilities and Fund Balances	<u><u>\$ 758,874</u></u>

See accompanying notes to basic financial statements.

HORIZONS COMMUNITY HIGH SCHOOL
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007

Total governmental fund balances	\$ 455,096
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Accumulated sick leave	<u>(98,474)</u>
Total net assets - governmental activities	<u><u>\$ 356,622</u></u>

See accompanying notes to basic financial statements.

HORIZONS COMMUNITY HIGH SCHOOL
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2007

	<u>General</u>
Revenues	
Local sources	\$ 10,737
State sources	1,684,819
Federal sources	100,883
Interdistrict sources	<u>132,489</u>
Total Revenues	<u>1,928,928</u>
Expenditures	
Current:	
Instruction	1,085,618
Supporting services	<u>611,157</u>
Total Expenditures	<u>1,696,775</u>
Excess of Revenues Over Expenditures	232,153
Fund Balances, Beginning of Year	<u>222,943</u>
Fund Balances, End of Year	<u><u>\$ 455,096</u></u>

See accompanying notes to basic financial statements.

HORIZONS COMMUNITY HIGH SCHOOL
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2007

Net change in fund balances - total governmental funds	\$ 232,153
In the Statement of Net Assets, accumulated sick leave is measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$57,435) exceeded the amounts paid/used (\$3,251).	<u>(54,184)</u>
Total changes in net assets - governmental activities	<u><u>\$ 177,969</u></u>

See accompanying notes to basic financial statements.

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Statement of Revenues, Expenditures and Changes of Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Local sources	\$ 3,720	\$ 7,720	\$ 10,737	\$ 3,017
State sources	1,598,704	1,685,076	1,684,819	(257)
Federal sources	82,909	94,993	100,883	5,890
Interdistrict sources	102,591	137,843	132,489	(5,354)
Total Revenues	<u>1,787,924</u>	<u>1,925,632</u>	<u>1,928,928</u>	<u>3,296</u>
Expenditures				
Current:				
Instruction:				
Basic programs	985,260	1,007,150	937,176	69,974
Added needs	131,722	165,397	148,442	16,955
Supporting services:				
Pupil services	81,242	111,528	98,037	13,491
Instructional staff services	226,170	222,295	204,757	17,538
General administrative services	59,974	63,634	63,668	(34)
Business services	17,312	17,313	2,816	14,497
Operation and maintenance services	225,261	241,899	233,191	8,708
Pupil transportation services	10,000	10,000	8,688	1,312
Total Expenditures	<u>1,736,941</u>	<u>1,839,216</u>	<u>1,696,775</u>	<u>142,441</u>
Excess of Revenues Over Expenditures	<u>50,983</u>	<u>86,416</u>	<u>232,153</u>	<u>145,737</u>
Fund Balance, July 1	<u>222,943</u>	<u>222,943</u>	<u>222,943</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 273,926</u>	<u>\$ 309,359</u>	<u>\$ 455,096</u>	<u>\$ 145,737</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2007

Note A – Summary Of Significant Accounting Policies

Horizons Community High School received its charter under Public Act 416 of 1994 from Wyoming Public Schools on September 19, 1994. As part of the chartering process, Horizons Community High School was instructed to file restated Articles of Incorporation with the Michigan Department of Commerce. According to the contract with Wyoming Public Schools, Horizons Community High School is to act exclusively as a governmental agency and is not to undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Under this contract, Wyoming Public Schools provides certain services to Horizons Community High School including approval of Horizons Community High School's operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. Wyoming Public Schools is paid a 3% administration fee by Horizons Community High School for such services.

The School is governed by a Board of Directors consisting of fifteen members approved by Wyoming Public Schools and administered by a Director who is appointed by the aforementioned Board. The School provides educational services for approximately 228 full-time students as specified by state statute and Board of Directors policy.

The financial statements of Horizons Community High School (the "School") have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the School's accounting policies are described below.

1. The Reporting Entity

The financial reporting entity consists of a primary government and its component units. The School is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the School for financial statement presentation purposes, and the School is not included in any other governmental reporting entity. Consequently, the School's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. School-Wide and Fund Financial Statements

School-Wide Financial Statements - The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the School as a whole. The reported information includes all of the nonfiduciary activities of the School. The School does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the School. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The School does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The School's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2007

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for the governmental fund. The General Fund is the School's only major fund, and its only fund.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the school-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

School-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2007

Governmental Funds

Governmental funds are those funds through which most school functions typically are financed. The acquisition, use, and balances of a school's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund—The General Fund is the general operating fund of a school. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the school-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school be under budgetary control and that both budgeted and actual financial results do not incur a deficit. A school's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a school's budget may occur without a corresponding amendment to the budget. A school has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Directors. Expenditures may not legally exceed budget appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Horizons Community High School utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- The Board of Directors and the Director establish proposed operating budgets for the ensuing fiscal year.
- Preliminary operating budgets are submitted to the Board of Directors by the Director. These budgets include proposed expenditures and the means of financing them.
- After the budgets are finalized, the Board of Directors adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General Fund were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2007

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

8. Capital Assets

Capital assets, which may include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the school-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets. Capital assets are depreciated using the straight-line method over estimated useful lives.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Accumulated Sick Leave

Accumulated sick leave at June 30, 2007 has been computed and recorded in the basic financial statements of the School. Eligible School employees are entitled to payments based on their unused sick days. At June 30, 2007, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for accumulated sick leave amounted to \$98,474.

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2007

11. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Depositories actively used by the School during the year are detailed as follows:

1. Fifth Third Bank

Balances at June 30, 2007 related to cash equivalents are detailed in the Basic Financial Statements as follows:

Governmental Fund	<u>\$ 387,097</u>
-------------------	-------------------

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2007

Cash equivalents consist of a bank public funds checking account.

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to the School. Protection of School cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the School's cash equivalents and deposits was \$387,097 and the bank balance was \$404,854. Of the bank balance, \$100,000 was covered by federal depository insurance and \$304,854 was uninsured.

Note C – State School Aid

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan schools in the form of a per pupil "Foundation Allowance" paid on a "blended count" of School pupil membership in February, 2006 and September, 2006. The 2006-07 "Foundation Allowance" for Horizons Community High School was \$7,113 for 228 "Full Time Equivalent" students, generating \$1,684,820 in state aid payments to the School of which \$289,150 was paid to the School in July and August, 2007 and included in "Due From Other Governmental Units" of the General Fund.

Note D – Long-term Debt

Changes in long-term debt for the year ended June 30, 2007 are summarized as follows:

	Debt Outstanding July 1, 2006	Debt Added	Debt Retired	Debt Outstanding June 30, 2007
Accumulated sick leave	\$ 44,290	\$ 57,435	\$ 3,251	\$ 98,474

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2007

Note E – Retirement Plan

Substantially all School employees participate in the Michigan Public School Employees' Retirement System (MPERS), a multiple employer public retirement system. The School payroll for employees covered by MPERS for the year ended June 30, 2007 was \$838,807. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

Schools in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 16.34% for the fiscal year ending September 30, 2006 and 17.74% for the fiscal year beginning October 1, 2006. The School's contributions to the plan for the fiscal years ended June 30, 2007, 2006 and 2005 were \$147,054, \$137,846 and \$128,691, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2005 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$48,206. The MPERS' net assets available for benefits on that date were \$38,211 leaving an unfunded pension benefit obligation of \$9,995. Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2006 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2007

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,462 from September 30, 2004 to September 30, 2005. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 3 years.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the School's total contribution to the MPSERS as discussed above.

Note F – Operating Lease

The School leases its facilities under an operating lease on a month-to-month basis from Wyoming Public Schools. Rent expense was \$108,151 for the year ended June 30, 2007. Future annual rent expense is expected to approximate the amount paid in 2006-07.

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash equivalents, deposits and investments	\$ 387,097	\$ 135,822
Due from other governmental units	345,434	310,067
Inventory	500	500
Prepaid expenditures	<u>25,843</u>	<u></u>
Total Assets	<u><u>\$ 758,874</u></u>	<u><u>\$ 446,389</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 3,016	\$ -
Due to other governmental units	165,251	81,893
Accrued salaries and related items	<u>135,511</u>	<u>141,553</u>
Total Liabilities	<u>303,778</u>	<u>223,446</u>
Fund Balances		
Unreserved:		
Undesignated	<u>455,096</u>	<u>222,943</u>
Total Liabilities and Fund Balances	<u><u>\$ 758,874</u></u>	<u><u>\$ 446,389</u></u>

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Local sources:		
Interest earnings	\$ 10,737	\$ 4,585
State sources:		
State aid	1,684,819	1,574,150
Federal sources:		
Title I	60,560	53,206
Title IIA	11,884	22,609
Title IID	622	1,648
Title V	455	1,875
IDEA program	27,362	34,916
Other		3,760
Total federal sources	<u>100,883</u>	<u>118,014</u>
Interdistrict sources:		
Special education - county allocation	122,912	76,795
Other	9,577	
Total Interdistrict sources	<u>132,489</u>	<u>76,795</u>
Total Revenues	<u><u>\$ 1,928,928</u></u>	<u><u>\$ 1,773,544</u></u>

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Current:		
Instruction:		
Basic programs:		
High school:		
Salaries	\$ 534,220	\$ 606,078
Employee benefits	284,109	310,546
Purchased services	76,032	12,800
Supplies	26,655	34,017
Equipment and furniture	12,335	-
Miscellaneous	3,825	2,561
Total basic programs	<u>937,176</u>	<u>966,002</u>
Added needs:		
Special education:		
Salaries	46,260	45,449
Employee benefits	25,644	25,476
Purchased services	542	4,096
Supplies	5,809	-
	<u>78,255</u>	<u>75,021</u>
Compensatory education:		
Salaries	38,231	41,554
Employee benefits	22,271	18,098
Purchased services	289	-
	<u>60,791</u>	<u>59,652</u>
Vocational education:		
Salaries	7,596	-
Employee benefits	1,581	-
Purchased services	111	-
Supplies	108	-
	<u>9,396</u>	<u>-</u>
Total added needs	<u>148,442</u>	<u>134,673</u>
Total instruction	1,085,618	1,100,675
Supporting services:		
Pupil services:		
Psychological services:		
Purchased services	3,843	-
Social worker services:		
Salaries	41,747	16,617
Employee benefits	27,342	13,014
	<u>69,089</u>	<u>29,631</u>

(Continued)

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Other pupil services:		
Purchased services	\$ 1,412	\$ 5,716
Supplies	5,651	5,686
Equipment and furniture	18,042	24,623
	<u>25,105</u>	<u>36,025</u>
Total pupil services	<u>98,037</u>	<u>65,656</u>
Instructional staff services:		
Improvement of instruction:		
Salaries	5,474	-
Employee benefits	1,410	-
Purchased services	9,092	2,053
Supplies	-	1,642
	<u>15,976</u>	<u>3,695</u>
Supervision/direction of instructional staff:		
Salaries	120,969	143,129
Employee benefits	62,607	82,593
Purchased services	1,454	1,407
Supplies	3,751	5,492
	<u>188,781</u>	<u>232,621</u>
Total instructional staff services	<u>204,757</u>	<u>236,316</u>
General administrative services:		
Board of education:		
Purchased services	5,975	5,250
Executive administration:		
Purchased services	57,659	-
Miscellaneous	34	51,713
	<u>57,693</u>	<u>51,713</u>
Total general administrative services	<u>63,668</u>	<u>56,963</u>
Business Services:		
Other business services:		
Purchased services	2,196	-
Supplies	620	-
Total business services	<u>2,816</u>	<u>-</u>

(Continued)

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operation and maintenance services:		
Operation and maintenance:		
Salaries	43,063	31,331
Employee benefits	30,818	18,807
Purchased services	122,992	135,773
Supplies	36,318	41,320
Miscellaneous	-	1,435
	<u>233,191</u>	<u>228,666</u>
Total operation and maintenance services		
	<u>233,191</u>	<u>228,666</u>
Pupil transportation services:		
Pupil transportation:		
Purchased services	<u>\$ 8,688</u>	<u>\$ 7,533</u>
Total supporting services:	<u>611,157</u>	<u>595,134</u>
Total Expenditures	<u><u>\$ 1,696,775</u></u>	<u><u>\$ 1,695,809</u></u>

Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

November 15, 2007

The Board of Directors
Horizons Community High School

We have audited the basic financial statements of Horizons Community High School as of and for the year ended June 30, 2007, and have issued our report thereon dated November 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Horizons Community High School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Horizons Community High School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, the Michigan Department of Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

November 14, 2007

The Board of Directors
Horizons Community High School
Kent County, Michigan

The following comments pertain to our audit of the financial records of Horizons Community High School as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements with Management.
7. Consultation with Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the School's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Horizons Community High School:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Horizons Community High School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Horizons Community High School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Horizons Community High School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Horizons Community High School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Horizons Community High School's compliance with those requirements.

Significant Accounting Policies

The School's elected officials and management have the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise the School regarding the appropriateness of accounting policies and their application. The significant accounting policies used by Horizons Community High School are described in Note A in the Notes to Basic Financial Statements.

Difficulties Encountered In Performing the Audit

We encountered no significant difficulties in performing the audit of the financial statements of Horizons Community High School for the year ended June 30, 2007. We did spend a significant amount of time at the School prior to the close of the fiscal year assisting School personnel in reconciling bank accounts and inter-fund transactions of the School, which is addressed in the recommendations section below.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit no of a significant nature were made to the accounting records of the School to bring the balances to those presented in the financial statements.

Proposed Audit Adjustments

There were no material proposed audit adjustments not recorded by Horizons Community High School.

Suggestions and Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Horizons Community High School to the Director of Finance and other School business office personnel as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

In the fall of 2006, the AICPA issued Statement on Auditing Standards No. 112 "Communicating Internal Control Related Matters Identified in an Audit", which requires a written communication from an auditor to an organization's governing board if any weaknesses in internal controls ("control deficiencies") rise to the level of "significant deficiencies" or "material weaknesses" that might effect the integrity of the financial statements. The AICPA significantly broadened the standards as to what might be a significant deficiency and/or material weakness and raised the expectations of auditors to report these control deficiencies, if found. While we did observe certain control deficiencies in areas of the School's internal control during the course of our audit, we found no significant deficiencies or material weaknesses in internal controls. The following recommendations relate to our internal control findings:

- We encourage the School to increase its activities in the areas of *segregation/sharing of duties* and *monitoring of internal controls* in its accounting and financial record keeping operations, especially in the areas of payroll/human resources.
- We encourage the School to support the Director of Finance in furthering his, and his business office personnel's, education in the area of governmental financial statement preparation in compliance with current GAAP and GASB requirements. These are complex and constantly changing requirements that continue to increase and undergo significant modifications.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Horizons Community High School has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with School business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the School in maintaining and improving its systems.

Other Comments

The General Fund Balance of the School increased by \$222,943 to \$455,096 at June 30, 2007. This balance represents approximately 25 percent of the School's 2007-08 budgeted expenditures (up from 13 percent at June 30, 2007). Maintaining a fund balance of at least 20 percent of the ensuing year's expenditure budget is advisable for Horizons Community High School, as that percentage seems to be a dividing line between Schools that are required to borrow for cash-flow purposes (and incur interest expenses and loan processing fees) and those Schools that are not required to borrow. This level of fund balance also gives the School more stable operating funds during the year and acts as a buffer against the uncertainty of state aid revenues accruing to the School.

This communication is intended solely for the information and use of the Horizons Community High School Board of Directors, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Horizons Community High School and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the School's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

Hungerford, Aldrin, Nichols & Harten, P.C.

Certified Public Accountants